FDIC State Profile

Spring 2006

Massachusetts

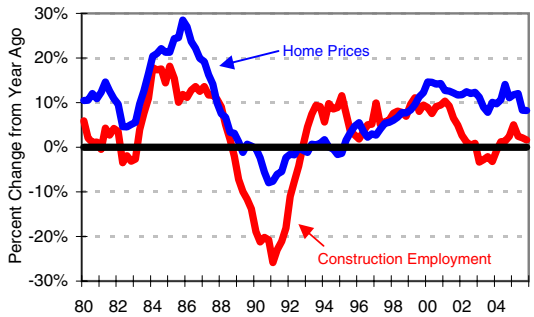
In 2005, the construction industry and two major service sectors led Massachusetts job growth.

- The Massachusetts economy added 15,900 new jobs from fourth quarter 2004 through fourth quarter 2005, a gain of 0.5 percent. Construction employment led growth during the year, increasing by 2.6 percent, followed by professional and business services at 1.8 percent and finance, insurance and real estate at 1.7 percent. Although accounting for only slightly more than 4 percent of nonfarm jobs in the state, the construction industry contributed over one-fifth of the increase in jobs during the year.
- Construction employment is highly variable over time and is significantly influenced by the behavior of housing prices (see Chart 1). This was especially the case in the 1980s and early 1990s, but somewhat less so now. Given this relationship, the recent slowing in the rate of home price appreciation may portend some decrease in the rapid growth of construction employment.
- Of the construction subsectors, the largest growth rate was in the construction of buildings (2.9 percent) and in specialty trade contracting, which includes plumbing, painting, and electrical work (2.3 percent). The two subsectors accounted for about nine-tenths of all construction employment in Massachusetts.
- Manufacturing lost a significant number of jobs during the period, decreasing by 2.1 percent. Other sectors losing jobs were leisure and hospitality services and trade, transportation and utilities, each declining slightly by 0.2 percent.

Unemployment insurance claims show slow improvement in Massachusetts.

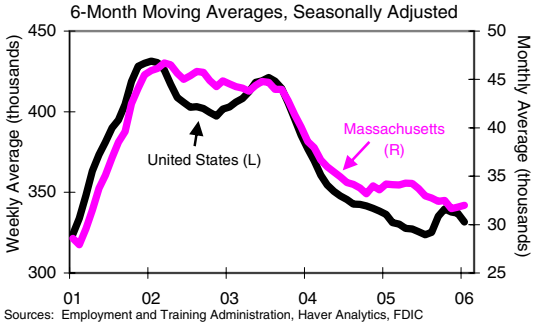
- Since reaching a peak monthly average of nearly 47,000 early in 2002, initial unemployment insurance claims have declined to more moderate levels. As of January 2006, the six-month seasonally adjusted monthly average stood at 32,000 (see Chart 2).
- This level of new claim activity remains below Massachusetts' historical average, suggesting modest to moderate gains in employment over the near term.

Chart 1: Construction Employment in Massachusetts Varies with Home Prices



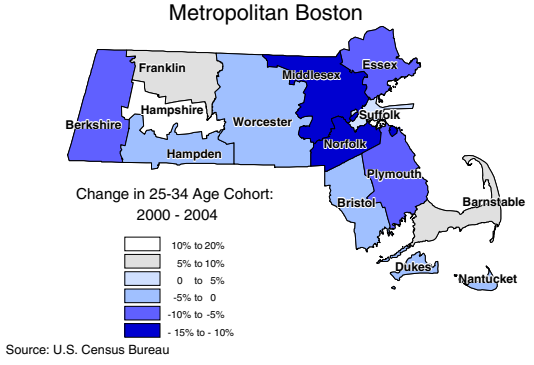
Sources: BLS, OFHEO, Haver Analytics

Chart 2: New Unemployment Insurance Claims in Massachusetts Edged Lower



Sources: Employment and Training Administration, Haver Analytics, FDIC

Map 1: Young Adults Are Settling Far From Metropolitan Boston



Source: U.S. Census Bureau

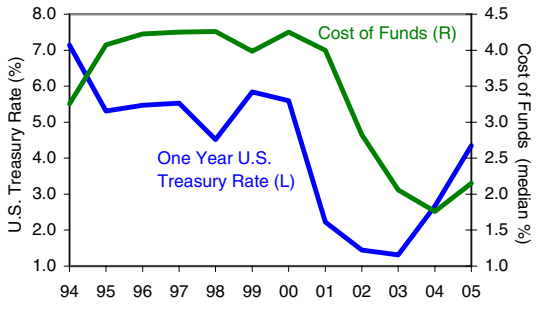
Suburban Boston's high living costs push young people to exurbs, alternate cities, and other states.

- Massachusetts recorded a 4.8 percent decline in the 25 to 34-year-old cohort from 2000 to 2004, compared to a 0.5 percent gain for the nation. As the only state in the union estimated to have lost total population in both 2004 and 2005, it should not be a surprise that Massachusetts also lost population in the 25 to 34 year old group. This group can set the pace for economic development as they join the workforce and form households.
- Because Massachusetts has numerous colleges and universities, these statistics suggest that students leave the area after completing their studies. Massachusetts attracted the young adult cohort at a greater rate than the U.S. average during the 1980s. But that trend changed after 1990, and the numbers have seen a significant decline in recent years.
- The young adult cohort actually increased from 2000 to 2004 in **Suffolk County**, which encompasses **Boston**, despite overall declines in population (see Map 1). The population of young adults in **Hampshire County**, which includes **Springfield** and **Northampton**, grew by 19 percent. In **Barnstable** and **Franklin Counties**, both decidedly non-urban, the young adult population grew by 6.7 and 7.9 percent, respectively. The suburbs around Boston experienced the largest declines, especially to the west, where rental and affordable housing are in short supply.

Rising short-term interest rates, a flatter yield curve, and a decline in core deposits are pressuring net interest margins (NIMs).

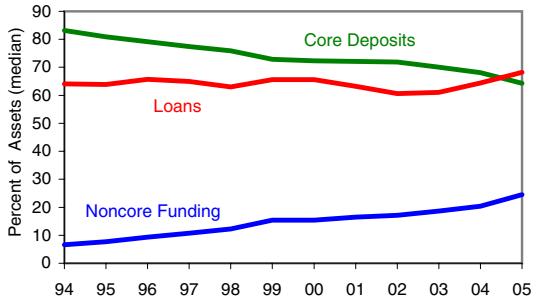
- NIMs have been on a general decline and have experienced pressure since the mid 1990s. NIMS showed signs of improvements in 2002 but dropped sharply in 2003 and have exhibited pressure since. During 2005 the NIM declined another four basis points to 3.46 percent.
- In 2004, the Federal Reserve began a series of increases in short-term interest rates that have continued into the early part of 2006. These increases led to a flattening yield curve as the difference in short-term rates and long-term rates narrowed.[1]
- A flattening yield curve often causes NIM compression as banks tend to borrow short-term and lend longer-term. Massachusetts' insured institutions saw NIMs decline slightly as funding costs began to increase late in 2005 in response to rising short-term interest rates (see Chart 3).
- With fewer low cost core deposits to fund loan growth, banks are increasingly turning to more expensive noncore funding sources such as borrowings. As of December 31, 2005, Massachusetts insured institutions posted a noncore funding to asset ratio of 24.51 percent, which is the 12th highest in the nation (see Chart 4). Noncore funding typically is more sensitive to changes in market interest rates than core funding, and as a result, could further pressure NIMs should rates continue to rise.
- Going forward, the impact on NIMs from increased funding costs in Massachusetts' insured institutions may be more pronounced due to the large concentrations of long-term mortgage related assets because deposits usually reprice more quickly than long-term assets. Massachusetts' insured institutions hold almost 30 percent of total assets in long-term assets.

Chart 3: Funding Costs Began Increasing in 2005 as Short-term Rates Rose



Source: FDIC, data through December 31, 2005

Chart 4: Increased Loan Volume Funded by Noncore Sources as Core Deposits Decline



Source: FDIC, data through December 31, 2005

[1] FYI: An Update on Emerging Issues in Banking. What the Yield Curve Does (and Doesn't) Tell Us. February 22, 2006. http://www.fdic.gov/bank/analytical/fyi/2006/022206fyi.html

Massachusetts at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q4-05	Q3-05	Q4-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	0.5%	0.4%	0.4%	-0.1%	-1.9%
Manufacturing (10%)	-2.1%	-2.9%	-2.0%	-3.5%	-7.0%
Other (non-manufacturing) Goods-Producing (4%)	1.9%	0.8%	2.0%	1.3%	-2.7%
Private Service-Producing (73%)	0.8%	0.8%	0.7%	0.5%	-1.0%
Government (13%)	0.7%	0.8%	0.3%	-1.2%	-2.6%
Unemployment Rate (% of labor force)	4.8	4.7	4.9	5.2	5.8
Other Indicators	**Q4-05**	**Q3-05**	**Q4-04**	**2004**	**2003**
Personal Income	N/A	4.2%	6.7%	5.8%	2.2%
Single-Family Home Permits	7.2%	9.0%	-4.9%	9.9%	-5.7%
Multifamily Building Permits	-12.9%	6.0%	59.9%	23.2%	57.9%
Existing Home Sales	-4.2%	11.2%	16.5%	19.8%	2.1%
Home Price Index	8.2%	8.3%	11.1%	11.4%	9.5%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	5.81	4.10	2.84	2.81	2.78

BANKING TRENDS

General Information	Q4-05	Q3-05	Q4-04	2004	2003
Institutions (#)	194	195	200	200	209
Total Assets (in millions)	231,132	232,440	224,189	224,189	214,167
New Institutions (# < 3 years)	0	0	1	1	2
Subchapter S Institutions	2	2	1	1	0
Asset Quality	**Q4-05**	**Q3-05**	**Q4-04**	**2004**	**2003**
Past-Due and Nonaccrual Loans / Total Loans (median %)	0.60	0.57	0.60	0.60	0.70
ALLL/Total Loans (median %)	0.89	0.90	0.91	0.91	1.02
ALLL/Noncurrent Loans (median multiple)	4.91	5.06	5.17	5.17	4.27
Net Loan Losses / Total Loans (median %)	0.00	0.00	0.00	0.00	0.00
Capital / Earnings	**Q4-05**	**Q3-05**	**Q4-04**	**2004**	**2003**
Tier 1 Leverage (median %)	9.53	9.40	9.18	9.18	9.21
Return on Assets (median %)	0.63	0.67	0.65	0.69	0.76
Pretax Return on Assets (median %)	0.96	1.03	0.99	1.06	1.17
Net Interest Margin (median %)	3.43	3.45	3.56	3.50	3.54
Yield on Earning Assets (median %)	5.54	5.37	5.09	5.02	5.29
Cost of Funding Earning Assets (median %)	2.13	1.94	1.58	1.56	1.82
Provisions to Avg. Assets (median %)	0.02	0.03	0.03	0.03	0.03
Noninterest Income to Avg. Assets (median %)	0.38	0.42	0.41	0.41	0.49
Overhead to Avg. Assets (median %)	2.66	2.65	2.71	2.68	2.65
Liquidity / Sensitivity	**Q4-05**	**Q3-05**	**Q4-04**	**2004**	**2003**
Loans to Assets (median %)	68.2	67.2	64.5	64.5	61.0
Noncore Funding to Assets (median %)	24.5	22.5	20.4	20.4	18.6
Long-term Assets to Assets (median %, call filers)	32.3	33.2	34.6	34.6	37.2
Brokered Deposits (number of institutions)	39	32	25	25	22
Brokered Deposits to Assets (median % for those above)	2.7	2.1	2.2	2.2	2.7
Loan Concentrations (median % of Tier 1 Capital)	**Q4-05**	**Q3-05**	**Q4-04**	**2004**	**2003**
Commercial and Industrial	24.2	20.7	20.9	20.9	19.4
Commercial Real Estate	167.2	168.2	154.9	154.9	150.9
Construction & Development	36.3	34.2	29.9	29.9	28.1
Multifamily Residential Real Estate	13.2	13.8	14.5	14.5	10.9
Nonresidential Real Estate	89.6	89.2	86.4	86.4	83.6
Residential Real Estate	410.4	409.1	398.7	398.7	397.5
Consumer	6.9	7.1	6.9	6.9	8.6
Agriculture	0.0	0.0	0.0	0.0	0.0

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits ($ millions)
Boston-Cambridge-Quincy, MA-NH	154	141,035
Springfield, MA	23	10,827
Worcester, MA	39	9,674
Barnstable Town, MA	12	5,535
Pittsfield, MA	12	2,721

Asset Distribution	Institutions
< $250 million	87 (44.8%)
$250 million to $1 billion	87 (44.8%)
$1 billion to $10 billion	17 (8.8%)
> $10 billion	3 (1.5%)